INSPECTOR GENERAL'S STATEMENT

More than twenty years ago when the Congress was working to establish Inspectors General in federal agencies, concern was raised about the working relationship between the Inspector General (IG) and the agency head. This concern arose in light of the IG's charge to report to the Congress on the results of audits, investigations, and other reviews of agency operations. Some feared that independent inspectors general could become adversaries of the agency head and even undermine their ability to run the agencies. The following excerpt from a 1976 Congressional report addressed that very issue and, at the time, served to alleviate some of the concern:

> "If the agency head is committed to running and managing the agency effectively and to rooting out fraud, abuse, and waste at all levels, the [Inspector General] can be [his or her] strong right arm in doing so, while maintaining the independence needed to honor [his or her] reporting obligations to Congress. The committee does not doubt that some tension can result from this relationship, but the committee believes that the potential advantages far outweigh the risks."

As Federal Deposit Insurance Corporation (FDIC) Chairman Helfer prepares to leave the Corporation after more than 2 and one-half years of dedicated service, I take this opportunity to reflect on that quotation and specifically on my experience after one year as IG at FDIC. I can hardly claim to have become the Chairman's "right arm." I do, however, believe that the IG's work and our many interactions with FDIC management on a number of significant issues, including some where we held very different views, have led to more effective and efficient operations in the Corporation. Similarly, through many exchanges and work relationships between my staff and members of the Corporation, my own office has benefitted. We have developed a better sense of the Corporation's plans and goals during a time of great change. In response, we have begun to refocus much of our own work and have rethought our structure while aiming to add value to the Corporation as it strives to accomplish its overall mission and strategic plans. In short, notwithstanding the essential independence of my office, I believe that both the Corporation and the Office of Inspector General (OIG) have benefitted greatly from working cooperatively. We are united in a common goal of ensuring that the Corporation is successful in its mission. I am grateful to the Chairman for her support of that mutually beneficial working relationship.

Our semiannual report will illustrate some of these points. We present the results of our work in the context of some of the most significant issues the Corporation is currently facing. Our audits, evaluations, and contractor reviews are summarized, along with discussion of the corrective actions the Corporation has agreed to take in response. The impact of our investigations is also presented. We have issued 96 audit and evaluation reports over the past 6 months. Of the $12.29 million in questioned costs that were reported, management has agreed to disallow $10.46 million. We have made an additional number of recommendations to improve corporate operations and programs. We issued 31 reports on expiring contracts that FDIC assumed at the Resolution Trust Corporation (RTC) sunset, in which we questioned an additional $5.7 million in questioned costs. Our investigations have resulted in 15 convictions, 14 indictments and $4.3 million in fines, restitution, and monetary recoveries. I could cite none of these accomplishments were it not for the opportunity to work and report in an environment that is open to and supportive of the scrutiny of an independent audit and investigative function.

During the past 6 months, the OIG bade farewell to the following members of the senior executive management team: Assistant Inspectors General from the Office of Audits Sharon E. Vander Vennet, Robert H. Brown, and Richard E. Wingate, and from the Office of Investigations, Deputy Inspector General Carolyn R. Ryals and Assistant Inspector General Clark W. Blight. Together, these individuals devoted more than 130 years to government service. Most importantly, they played key roles at both the FDIC and RTC during times of tremendous challenge. The work they contributed to the corporations and the friendship they shared with the staff of the OIG and others throughout FDIC will be their lasting legacy. The OIG appreciates their efforts and wishes them success in their future endeavors.

Additionally, we have continued to work with the Audit Committee and Office of Internal Control Management (OICM) during the reporting period. The Audit Committee meeting forum has been particularly useful and effective in providing an opportunity for dialogue between the OIG and senior management and for emphasizing the need for strong internal controls throughout the Corporation. We have presented 91 reports at Audit Committee meetings over the past 6 months. We have also had occasion to address certain disagreements and seek mutual solutions to concerns resulting from our work. I am pleased to cite a specific example where the Audit Committee's interest in solving a problem that gave rise to disagreement between the OIG and FDIC's Legal Division has yielded a positive result. Specifically, a recent collaborative effort between staff from my office and the Legal Division is addressing a serious concern that we raised in our last semiannual report and brought to the attention of the Audit Committee--the issue of law firms doing business with FDIC and not being able to provide original time sheets to support billings. The joint project's goal is to develop adequate and practical electronic billing standards for outside counsel consistent with certain internal control requirements and the capabilities of commercially available time, billing, and accounting systems used by the firms.

In a similar vein, our cooperative initiative with FDIC management and members of OICM to address audit resolution and followup issues has been highly successful. As a result of RTC's sunset, FDIC inherited a large backlog of recommendations that remained unresolved. As of December 31, 1995, there were 142 RTC OIG audit recommendations without management decisions. FDIC management promptly undertook an initiative to aggressively pursue resolution of these open audit issues. The Deputy to the Chairman and Chief Financial Officer (CFO) established a project team to develop criteria and processes to be used by FDIC management to address and resolve outstanding RTC OIG findings. These issues included both recommendations without management decisions and recommendations on which corrective actions had not been completed. Combining the effort and expertise of several major FDIC divisions and the OIG, the task force reduced the backlog of unresolved RTC OIG management decisions to zero over a 9-month period. In addition, corrective actions were completed for all but 126 of 685 recommendations that were outstanding as of March 31, 1996. Of particular importance, these efforts have also culminated in the near completion of a corporate wide directive designed to ensure that the audit and reporting processes are efficient and effective and that necessary corrective actions are agreed to and acted upon timely.

The OIG also agreed to assist management in resolving 1,022 unresolved recommendations included in review reports of RTC contractors issued by independent public accountants under contract to RTC management. The Deputy to the Chairman and CFO and Division of Administration, in coordination with the OIG, established a management action plan that provided for the orderly resolution of the backlog of unresolved recommendations. Through a concerted effort of all parties, management decisions were issued on 1,021 of the 1,022 recommendations, leaving only one recommendation unresolved as of March 31, 1997.

We have also initiated many changes and projects within the OIG during the reporting period and discuss these in more detail in this report. We implemented a reorganization on March 13 that eliminated five executive level positions and merged several OIG functions. We have put into place 128 of 173 Best Practices recommendations since the merger of RTC and FDIC in January 1996. Different working groups are also focusing on ways to improve OIG operations in such areas as information technology, report writing, and the incentive awards system. The OIG has also begun to develop performance measures and implement the Government Performance and Results Act.

In closing, I again want to thank Chairman Helfer for her strong leadership and support in the internal controls and audit functional areas, at a time when the Corporation faced critical decisions related to the merger of RTC and the subsequent downsizing of the entire Corporation. Her persistent attention to these areas has resulted in the major reduction of the backlog of audit recommendations and a more efficiently and economically run Corporation.

I look forward to continuing to work with the Chairman's successor and other members of FDIC senior management as the Corporation heads into the next millennium. I also anticipate that we will continue to prove former members of the Congress correct in their assertion that the advantages in the relationship of an independent IG and an agency head committed to the highest standards of integrity far outweigh the risks.

Gaston L. Gianni, Jr.

Inspector General

April 30, 1997